

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Lenawee County Building Authority	County Lenawee
Audit Date 12/31/05	Opinion Date 2/23/06	Date Accountant Report Submitted to State: 4/25/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

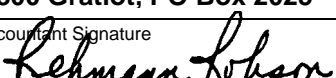
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Rehmann Robson			
Street Address 5800 Gratiot, PO Box 2025		City Saginaw	State MI
Accountant Signature 		ZIP 48605	Date 4/25/06

**LENAWEE COUNTY
BUILDING AUTHORITY**

Lenawee County, Michigan

FINANCIAL STATEMENTS

**For The Year Ended
December 31, 2005**



REHMANN ROBSON

Certified Public Accountants

LENAWEE COUNTY BUILDING AUTHORITY

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	1
Financial Statements	
Component-wide Financial Statements	
Statement of Net Assets	2
Statement of Activities.....	3-4
Fund Financial Statements:	
Balance Sheet – Governmental Funds	5
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets	6
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	7
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	8
Statement of Net Assets – Proprietary Funds	9
Statement of Activities – Proprietary Funds.....	10
Statement of Cash Flows – Proprietary Funds.....	11-12
Notes to Basic Financial Statements	13-22

* * * * *



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**



INDEPENDENT AUDITORS' REPORT

February 23, 2006

Commission Members
Lenawee County Building Authority
Adrian, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of **LENAWEE COUNTY BUILDING AUTHORITY** (a Michigan Corporation and Authority and a component unit of the County of Lenawee) as of and for the year ended December 31, 2005, which collectively comprise the Building Authority's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Building Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of Lenawee County Building Authority at December 31, 2005, and the respective changes in financial position and cash flows where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Lenawee County Building Authority has not presented management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

COMPONENT-WIDE FINANCIAL STATEMENTS

LENAWEE COUNTY BUILDING AUTHORITY

Statement of Net Assets

December 31, 2005

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 1,731,623	\$ 998,563	\$ 2,730,186
Receivables	172,232	-	172,232
Net investment in direct financing lease	3,568,068	1,248,785	4,816,853
Other assets	-	139,369	139,369
Capital assets not being depreciated	-	75,000	75,000
Capital assets being depreciated, net	-	5,254,990	5,254,990
Total assets	5,471,923	7,716,707	13,188,630
Liabilities			
Accounts payable and accrued expenses	91,923	26,347	118,270
Unearned revenue	-	357,429	357,429
Noncurrent liabilities:			
Due within one year	325,000	815,000	1,140,000
Due in more than one year	5,055,000	3,375,000	8,430,000
Total liabilities	5,471,923	4,573,776	10,045,699
Net Assets			
Invested in capital assets, net of related debt	-	2,674,990	2,674,990
Unrestricted	-	467,941	467,941
Total net assets	\$ -	\$ 3,142,931	\$ 3,142,931

The accompanying notes are an integral part of these financial statements.

LENAWEE COUNTY BUILDING AUTHORITY

Statement of Activities

For the Year Ended December 31, 2005

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program</u> <u>Revenues</u>	<u>Net (Expense)</u> <u>Revenue</u>
		<u>Charges</u> <u>for Services</u>	
Primary government			
Governmental activities:			
Interest on bonds	\$ 176,277	\$ 176,277	\$ -
Business-type activities:			
Human Services Building Operations	<u>1,352,610</u>	<u>1,774,279</u>	<u>421,669</u>
Total primary government	<u><u>\$ 1,528,887</u></u>	<u><u>\$ 1,950,556</u></u>	<u><u>\$ 421,669</u></u>

continued...

LENAWEE COUNTY BUILDING AUTHORITY
Statement of Activities (Concluded)
For the Year Ended December 31, 2005

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
Changes in net assets			
Net (expense) revenue	\$ -	\$ 421,669	\$ 421,669
General revenues:			
Unrestricted investment earnings	-	21,765	21,765
Change in net assets	-	443,434	443,434
Net assets, beginning of year, as restated	-	2,699,497	2,699,497
Net assets, end of year	\$ -	\$ 3,142,931	\$ 3,142,931

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

LENAWEE COUNTY BUILDING AUTHORITY

Balance Sheet Governmental Funds December 31, 2005

	Debt Service- Jail	Capital Projects- Jail	Total Governmental Funds
<u>ASSETS</u>			
Cash and cash equivalents	\$ 1,531,674	\$ 199,949	\$ 1,731,623
Accounts receivable, net	160,569	-	160,569
Due from other governments	10,663	-	10,663
Due from other funds of Lenawee County	1,000	-	1,000
	<hr/>		
<u>TOTAL ASSETS</u>	\$ 1,703,906	\$ 199,949	\$ 1,903,855
<hr/>			
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities			
Accounts and contracts payable	\$ -	\$ 63,224	\$ 63,224
Deferred revenue	151,395	-	151,395
	<hr/>		
	151,395	63,224	214,619
Fund balances			
Unreserved - undesignated	1,552,511	136,725	1,689,236
	<hr/>		
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	\$ 1,703,906	\$ 199,949	\$ 1,903,855
	<hr/>		

The accompanying notes are an integral part of these financial statements.

LENAWEE COUNTY BUILDING AUTHORITY
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
December 31, 2005

Fund balances - total governmental funds	\$ 1,689,236
--	--------------

Amounts reported for *governmental activities* in the statement of net assets are different because:

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current expenditures. Those assets (such as certain receivables) are offset by deferred revenue in the governmental funds, and thus are not included in fund balance.

Add - net investment in direct financing lease	3,568,068
Add - deferred accounts receivable	151,395

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct - bonds payable	(5,380,000)
Deduct - accrued interest on long-term liabilities	(28,699)

Net assets of governmental activities	\$ <u><u> -</u></u>
---------------------------------------	------------------------------

The accompanying notes are an integral part of these financial statements.

LENAWEE COUNTY BUILDING AUTHORITY
Statement of Revenue, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2005

	Debt Service- Jail	Capital Projects- Jail	Total Governmental Funds
Revenue			
Charges for services	\$ 429,609	\$ -	\$ 429,609
Interest revenue	41,700	9,120	50,820
Other revenue	-	261	261
Total revenue	471,309	9,381	480,690
Expenditures			
Current:			
Public safety	-	50,698	50,698
Debt service:			
Principal	325,000	-	325,000
Interest and fiscal charges	177,430	-	177,430
Total expenditures	502,430	50,698	553,128
Net change in fund balances	(31,121)	(41,317)	(72,438)
Fund balance, beginning of year	1,583,632	178,042	1,761,674
Fund balance, end of year	\$ 1,552,511	\$ 136,725	\$ 1,689,236

The accompanying notes are an integral part of these financial statements.

LENAWEE COUNTY BUILDING AUTHORITY
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended December 31, 2005

Net change in fund balances - total governmental funds	\$ (72,438)
--	-------------

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report revenue raised to support the construction and financing of leased facilities and the related capital outlays as revenue and expenditures. However, in the statement of activities, these receipts and disbursements are recorded as adjustments to the net investment in direct financing leases.

Deduct - net adjustment to the investment in direct financing leases	(253,715)
--	-----------

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add - principal payments on bonds payable	325,000
---	---------

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add - decrease in accrued interest payable on bonds	1,153
---	-------

Change in net assets of governmental activities	\$ -
---	------

The accompanying notes are an integral part of these financial statements.

LENAWEE COUNTY BUILDING AUTHORITY

Statement of Net Assets

Proprietary Funds

December 31, 2005

	Human Services Building	Medical Care Facility	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 962,348	\$ 36,215	\$ 998,563
Current portion of net investment in direct financing lease	-	125,000	125,000
Total current assets	962,348	161,215	1,123,563
Noncurrent assets			
Net investment in direct financing lease, net of current portion	-	1,123,785	1,123,785
Deferred cost on bond reissue, net of amortization	139,369	-	139,369
Capital assets, net of accumulated depreciation	5,329,990	-	5,329,990
Total noncurrent assets	5,469,359	1,123,785	6,593,144
Total assets	6,431,707	1,285,000	7,716,707
Liabilities			
Current liabilities			
Accounts payable	9,068	-	9,068
Accrued wages and benefits	5,417	-	5,417
Accrued interest payable	11,862	-	11,862
Unearned revenue	357,429	-	357,429
Current portion of due to Lenawee County	50,000	-	50,000
Current portion of bonds payable	640,000	125,000	765,000
Total current liabilities	1,073,776	125,000	1,198,776
Long-term debt			
Bonds payable, net of current portion	2,015,000	1,160,000	3,175,000
Due to Lenawee County, net of current portion	200,000	-	200,000
Total long-term debt	2,215,000	1,160,000	3,375,000
Total liabilities	3,288,776	1,285,000	4,573,776
Net assets			
Invested in capital assets, net of related debt	2,674,990	-	2,674,990
Unrestricted	467,941	-	467,941
Total net assets	\$ 3,142,931	\$ -	\$ 3,142,931

The accompanying notes are an integral part of these financial statements.

LENAWEE COUNTY BUILDING AUTHORITY**Statement of Revenue, Expenses and****Changes in Fund Net Assets****Proprietary Funds****For the Year Ended December 31, 2005**

	Human Services Building	Medical Care Facility	Total
Operating revenue			
Charges for services	\$ 131,287	\$ 41,317	\$ 172,604
Rental income	1,382,665	-	1,382,665
Vending and other income	6,173	-	6,173
Total operating revenue	1,520,125	41,317	1,561,442
Operating expenses			
Personal services costs	327,135	-	327,135
Supplies and other operating expenses	172,531	-	172,531
Other contractual services	444,755	-	444,755
Administrative costs	44	-	44
Depreciation expense	153,969	-	153,969
Total operating expenses	1,098,434	-	1,098,434
Operating income	421,691	41,317	463,008
Non-operating revenue (expenses)			
Interest income	21,765	-	21,765
Interest expense	(118,955)	(41,317)	(160,272)
Total non-operating revenue (expenses)	(97,190)	(41,317)	(138,507)
Income before transfers	324,501	-	324,501
Transfers from other funds of Lenawee County	212,837	-	212,837
Transfers to other funds of Lenawee County	(93,904)	-	(93,904)
Change in net assets	443,434	-	443,434
Net assets, beginning of year	2,699,497	-	2,699,497
Net assets, end of year	\$ 3,142,931	\$ -	\$ 3,142,931

The accompanying notes are an integral part of these financial statements.

LENAWEE COUNTY BUILDING AUTHORITY

Statement of Cash Flows

Proprietary Funds

For the Year Ended December 31, 2005

	Human Services Building	Medical Care Facility	Total
Cash flows from operating activities			
Cash received from users	\$ 1,401,345	\$ 41,317	\$ 1,442,662
Other operating receipts	6,173	-	6,173
Cash paid to employees and suppliers	(989,470)	-	(989,470)
Payments for interfund services used	(50,000)	-	(50,000)
Net cash provided by operating activities	418,048	41,317	459,365
Cash flows from capital and related financing activities			
Principal payments on long-term debt	(640,000)	(125,000)	(765,000)
Interest payments on long-term debt	(86,224)	(41,317)	(127,541)
Net cash used in capital and related financing activities	(726,224)	(166,317)	(892,541)
Cash flows from non-capital financing activities			
Transfers from other funds of Lenawee County	212,837	-	212,837
Transfers to other funds of Lenawee County	(93,904)	-	(93,904)
Net cash provided by non-capital financing activities	118,933	-	118,933
Cash flows from investing activities			
Interest income received	21,765	-	21,765
Amounts collected on direct financing lease	-	125,534	125,534
Net cash provided by investing activities	21,765	125,534	147,299
Net increase (decrease) in cash and cash equivalents	(167,478)	534	(166,944)
Cash and cash equivalents, beginning of year	1,129,826	35,681	1,165,507
Cash and cash equivalents, end of year	<u>\$ 962,348</u>	<u>\$ 36,215</u>	<u>\$ 998,563</u>

LENAWEE COUNTY BUILDING AUTHORITY
Statement of Cash Flows (Concluded)
Proprietary Funds
For the Year Ended December 31, 2005

	Human Services Building	Medical Care Facility	Total
<hr/>			
Reconciliation of operating income to net cash provided by operating activities			
Operating income	\$ 421,691	\$ 41,317	\$ 463,008
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	153,969	-	153,969
(Increase) decrease in:			
Accounts receivable	1,299	-	1,299
Increase (decrease) in:			
Accounts payable	5,991	-	5,991
Accrued wages and benefits	(996)	-	(996)
Unearned revenue	(113,906)	-	(113,906)
Due to Lenawee County	(50,000)	-	(50,000)
	<hr/>		
Net cash provided by operating activities	<u>\$ 418,048</u>	<u>\$ 41,317</u>	<u>\$ 459,365</u>

The accompanying notes are an integral part of these financial statements.

LENAWEE COUNTY BUILDING AUTHORITY

Notes To Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Lenawee County Building Authority (“Authority”) was created in October, 1987, pursuant to the provisions of Act 31, extra session of 1948, of the Public Acts of Michigan. The Authority has no stockholders, and all monies received are designated for the costs of designing, constructing, equipping and operating a new Human Services Building and other facilities as needed, to be used by certain County Departments, State Agencies, and Federal Departments, in accordance with the agreement between the incorporating County of Lenawee (“County”), the Authority, and its bondholders.

In 2001, the Authority approved entering into a contract with the County to provide for the costs of constructing and equipping a new jail facility. The Authority issued bonds in 2003 to supplement local contributions to this project.

In 2004, the Authority approved entering into a contract with the County to refinance debt of the Medical Care Facility for prior improvements. The Authority issued bonds in 2004.

The Authority is a component unit of the County of Lenawee. The Authority is considered to be a component unit of the County because the County appoints the majority of the Authority Board members and has the ability to significantly influence operations.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

LENAWEE COUNTY BUILDING AUTHORITY

Notes To Financial Statements

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Charges for services and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period.

The Authority reports the following major governmental funds:

The *jail debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt issued for the construction of the jail.

The *jail capital projects fund* accounts for the construction of the new jail.

The Authority reports the following major proprietary funds:

The *human services building fund* accounts for the construction, operation, maintenance, and financing of the human services building.

The *medical care facility fund* accounts for the financing of the medical care facility building.

LENAWEE COUNTY BUILDING AUTHORITY

Notes To Financial Statements

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Human Services Building are rental charges to building tenants. Operating expenses for enterprise funds include the cost of building maintenance, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less.

Investments are stated at fair value.

LENAWEE COUNTY BUILDING AUTHORITY

Notes To Financial Statements

State statutes authorize the Authority to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments (except those with a fluctuating per share value).

2. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

II. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

At December 31, 2005, the Authority's cash and cash equivalents consisted of the following:

	<u>Book</u>	<u>Bank</u>
<u>Deposits</u>		
Checking and savings accounts	\$ 254,874	\$ 254,874
Certificates of deposits	1,512,964	1,512,964
Equity in pooled checking account	<u>174,140</u>	<u>N/A</u>
Total deposits	1,941,978	<u>\$ 1,767,838</u>
<u>Investment</u>		
MBIA government liquid asset fund	<u>788,208</u>	\$ 788,208
	<u>\$ 2,730,186</u>	

LENAWEE COUNTY BUILDING AUTHORITY

Notes To Financial Statements

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. The County's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments in the summary of significant accounting policies. The County's investment policy does not have specific limits in excess of state law on investment credit risk. As of December 31, 2005, the Authority through the County Treasurer has investments that consist of \$788,208 in MBIA government liquid asset funds. This investment is not rated.

Custodial Credit Risk – Deposits. The Authority maintains \$1,767,838 in checking, savings and CD accounts at banks which are under custody of the County Treasurer. It is not practical to determine the insured portion of these balances since they are included in the pooled and other cash accounts of Lenawee County.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the County does not have a policy for investment custodial credit risk. On the investments listed above, there is no custodial credit risk, as these investments are uncategorized as to credit risk.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments in the summary of significant accounting policies. The Authority's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

LENAWEE COUNTY BUILDING AUTHORITY

Notes To Financial Statements

B. Receivables

Receivables in governmental activities are comprised of the following:

Accounts receivable - jail	\$ 2,156,016
Due from other governments	10,663
Due from other funds of County	<u>1,000</u>
Subtotal	2,167,679
Less: allowance for doubtful accounts	<u>1,995,447</u>
	<u><u>\$ 172,232</u></u>
Amount not expected to be collected within one year	<u><u>\$ 105,525</u></u>

C. Net Investment in Direct Financing Lease (Capital Lease)

Governmental Activities

During the year ended December 31, 2003, the Building Authority issued general obligation bonds to finance the costs of constructing and equipping a new jail facility . Under a lease agreement, the County has agreed to pay the Authority periodic cash rental amounts sufficient to enable the Authority to pay the principal and interest on the bonds. Such rentals are pledged exclusively for payment of principal and interest on the revenue bonds, and cease after all bonds have been retired. The County has pledged its full faith and credit for the payment of the cash rentals as additional security.

The long-term lease has been accounted for as a direct financing lease in accordance with Statement of Financial Accounting No. 13, "Accounting for Leases". The future minimum lease rentals receivable are sufficient to repay the revenue bonds and interest.

The Authority's net investment in direct financing lease consists of:

Net investment in capitalized lease	\$ 3,568,068
Less: Current portion of net investment in capitalized lease	<u>325,000</u>
	<u><u>\$ 3,243,068</u></u>

The future minimum lease rentals receivable represent amounts due for repayments on the bonds for the jail facility less any cash remaining in the Building Authority to repay the debt.

LENAWEE COUNTY BUILDING AUTHORITY

Notes To Financial Statements

Business-type Activities

During the year ended December 31, 2004, the Building Authority issued general obligation bonds to pay-off amounts owed by the County Medical Care Facility to the Delinquent Tax Revolving Fund. Under a lease agreement, the County Medical Care Facility has agreed to pay the Authority periodic cash rental amounts sufficient to enable the Authority to pay the principal and interest on the bonds. Such rentals are pledged exclusively for payment of principal and interest on the revenue bonds, and cease after all revenue bonds have been retired. The County has pledged its full faith and credit for the payment of the cash rentals as additional security.

LENAWEE COUNTY BUILDING AUTHORITY

Notes To Financial Statements

The long-term lease has been accounted for as a direct financing lease in accordance with Statement of Financial Accounting No. 13, "Accounting for Leases". The future minimum lease rentals receivable are sufficient to repay the revenue bonds and interest.

The Authority's net investment in direct financing lease consists of:

Net investment in capitalized lease	\$ 1,248,785
Less: Current portion of net investment in capitalized lease	<u>125,000</u>
	<u>\$ 1,123,785</u>

The future minimum lease rentals receivable represent amounts due for repayments on the bonds for the Medical Care Facility less any cash remaining in the Building Authority to repay the debt.

D. Payables

Accounts payable and accrued liabilities in the governmental activities are as follows:

Trade accounts payable	\$ 63,224
Accrued interest payable	<u>28,699</u>
	<u>\$ 91,923</u>

Accounts payable and accrued liabilities in the business-type activities are as follows:

Trade accounts payable	\$ 9,068
Wages, fringe benefits and other accrued liabilities	5,417
Accrued interest payable	<u>11,862</u>
	<u>\$ 26,347</u>

E. Long-term Debt

The Authority issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental and business-type activities.

LENAWEE COUNTY BUILDING AUTHORITY

Notes To Financial Statements

Authority long-term debt activity for the year ended December 31, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Building Authority Limited Tax Full Faith and Credit General Obligation Bonds of \$6,030,000 due in varying annual installments of \$325,000 to \$530,000 at interest rates of 2.1% to 3.9%.	<u>\$ 5,705,000</u>	<u>\$ -</u>	<u>\$ 325,000</u>	<u>\$ 5,380,000</u>	<u>\$ 325,000</u>
Business-type activities:					
Building Authority Limited Tax Full Faith and Credit General Obligation Bonds of \$1,410,000, due in varying installments of \$125,000 to \$165,000 plus interest rates of 2.0% to 3.5%, through 2014.	\$ 1,410,000	\$ -	\$ 125,000	\$ 1,285,000	\$ 125,000
Building Authority Limited Tax Full Faith and Credit Refunding General Obligation Bonds of \$4,525,000, due in varying installments of \$610,000 to \$680,000 plus interest rates of 2.0% to 3.1%, due 5/01/09.	<u>\$3,295,000</u>	<u>\$ -</u>	<u>\$ 640,000</u>	<u>\$ 2,655,000</u>	<u>\$ 640,000</u>
Total bonds	<u>4,705,000</u>	<u>-</u>	<u>765,000</u>	<u>3,940,000</u>	<u>765,000</u>
Loans Payable to Lenawee County Delinquent Tax Revolving Fund	<u>300,000</u>	<u>-</u>	<u>50,000</u>	<u>250,000</u>	<u>50,000</u>
Total long-term debt	<u>\$ 5,005,000</u>	<u>\$ -</u>	<u>\$ 815,000</u>	<u>\$ 4,190,000</u>	<u>\$ 815,000</u>

LENAWEE COUNTY BUILDING AUTHORITY

Notes To Financial Statements

On September 1, 2002, the County issued \$4,525,000 in Limited Tax Full Faith and Credit General Obligation Refunding Bonds with an average rate of 2.6% to advance refund \$4,260,000 of outstanding 1993 Series Limited Tax Full Faith and Credit General Obligation Bonds with an average interest rate of 5.6%. As a result, the \$4,260,000 remaining 1993 Series bonds are considered to be defeased and the liability for these bonds has been removed from the Building Authority Fund. The balance of the defeased bonds outstanding was \$2,615,000 at December 31, 2005. This transaction resulted in a deferred cost on refunded bonds, where the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized over the remaining life of the new debt (through 4/30/09).

The annual requirements to amortize the general obligation bonds as of December 31, 2005, are as follows:

Governmental Activities

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 325,000	\$ 170,442
2007	350,000	162,836
2008	350,000	154,261
2009	375,000	144,548
2010	375,000	133,580
2011-2015	2,100,000	467,507
2016-2018	<u>1,505,000</u>	<u>87,808</u>
	<u>\$ 5,380,000</u>	<u>\$ 1,320,982</u>

Business-type Activities

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 765,000	\$ 100,233
2007	785,000	81,805
2008	810,000	60,513
2009	815,000	36,801
2010	140,000	22,445
2011-2014	<u>625,000</u>	<u>43,327</u>
	<u>\$ 3,940,000</u>	<u>\$ 345,124</u>

LENAWEE COUNTY BUILDING AUTHORITY

Notes To Financial Statements

The Authority has borrowed \$1,000,000 from the Lenawee County Delinquent Tax Revolving Fund. Under a revised plan which became effective for the year ended December 31, 1990 and continues annually each year thereafter, principal of \$50,000 per year is to be repaid through December 31, 2009, and a provision is made to repay to the County 75% of total annual interest earnings on investments in the Bond and Interest account (restricted cash and cash equivalents) each year, as interest expense.

Principal payments remaining under this obligation are as follows:

<u>Maturing December 31,</u>	<u>Principal Amount</u>
2006	\$ 50,000
2007	50,000
2008	50,000
2009	<u>100,000</u>
Total	<u>\$ 250,000</u>

III. OTHER INFORMATION – RESTATEMENT OF NET ASSETS

Beginning net assets of governmental activities were reduced by \$6,240,095 to properly state amounts due from the County under long-term lease agreements.

* * * * *